

Guatemala Labor Standards Alliance

Fostering Competitiveness through Workplace Improvements

Central America's maquila sector employs nearly 450,000 mostly women laborers living at the edge of poverty, 80,000 of which are in Guatemala. These workers face a wide range of labor standards due to poor compliance with national legislation and the ILO international labor conventions that have been nationally endorsed. Workplace violations include underpayment of wages, child labor, compulsory overtime, and lack of freedom of association and collective bargaining.

Furthermore, global market conditions in the textile sector favors inexpensive labor at the expense of labor standards. Quota protection from global multi-fiber agreements cease in January 2005, at which point Guatemala will face direct competition from lower-cost producers such as China. If Guatemala's textile workers do not increase competitiveness, the entire industry is vulnerable.

Workers' rights violations face increased scrutiny by consumers, investors and NGOs due to the prevalence of product sourcing in developing countries; simultaneously, Guatemala's textile industry faces greater competitive pressure with expiration of the Multi-fiber Arrangements (MFA) on 1 January 2005. Labor standards are considered key in addressing both problem areas, and major international buyers such as Gap and Timberland view capacity building aimed at increasing vendor ownership for workplace improvements and compliance with workplace codes of conduct as critical to achieving better labor standards along their supply chains.

Why are voluntary codes of conduct effective?

Losing the business of a major multinational buyer is much more damaging for a factory than the fines a public sector auditor would impose. When firms such as Gap and Timberland consistently communicate expectations through the supply chain, factory owners are encouraged to respond or jeopardize an important business relationship. By locating labor standards within a vendor-client relationship rather than externally imposed through public sector regulation, factory owners and managers have a clear economic rationale to respond. This market-based incentive is meant to complement and strengthen public sector efforts to enforce compliance.

The **Guatemala Labor Standards Alliance** responds to these pressing issues by linking labor standards with competitiveness. With a \$530,000 seed grant from the USAID Global Development Alliance, the alliance combines technical expertise in labor standards training from Social Accountability International (SAI), local union linkages through the International Textile, Garment, and Leathers Workers Federation (ITG) and cooperation from Gap and Timberland. On the ground knowledge comes from collaborating with a highly respected local monitoring group, COVERCO (see local partner descriptions below). Close dialogue and working sessions are also held with VESTEX, the Guatemalan industry association. Development Alternatives, Inc. (DAI) is the primary implementing partner.

At the activity level, the alliance works on two fronts. First, regular dialogue among key stakeholders including government, business and civil society builds understanding and buy-in

on the correlation between labor standards and national competitiveness. This multi-stakeholder approach brings together, business and textile associations, civil society organizations, trade unions and local worker groups, factory owners, host country private sector partners, NGO monitoring groups, business and legal associations, multinationals, recognized standard-setting bodies, and central government ministries of labor, economy and trade.

Second, workplace-training interventions educate both workers and managers in their respective roles and responsibilities in order to comply with national and international labor standards legislation and foster economic growth through improved industrial relations, increased productivity, employee morale, and workforce skills development.

Linking labor standards and competitiveness

“Once the Multi-fiber Arrangements expire, the textile industry is highly vulnerable,” says Loren Stoddard, alliance coordinator for the LAC region.

At that time, Guatemala and the rest of Central America will need to compete globally on cost and quality with producers such as China and India. This competition can be impacted by consumer preference and public pressure, which has over the last several years proved an effective driver of corporate behavior.

If retail apparel firms continue to engage governments and NGO’s to develop industry-wide norms predicated on internationally recognized labor standards, Guatemala has the opportunity to successfully compete with producers who sacrifice labor standards in favor of cost alone.

BUILDING THE ALLIANCE

In USAID FY03, the GDA Secretariat issued an Annual Program Statement (APS) as a general solicitation for alliance proposals. This approach typically involves organizations with prior experience as USAID implementing partners who cultivate resource partners in response to the specifications outlined in the solicitation¹. Proposals which met the criteria specified in the APS, and for which a Bureau or mission expressed interest in implementing and perhaps funding partially, were eligible for award subject to funding constraints. As discussed in the *GDA Tools for Alliance Builders*, the solicitor in a formal GDA solicitation process typically assumes the role of alliance convener in submitting the solicitation, and is also typically the primary implementing partner of the alliance².

¹ The recent GDA Assessment notes that use of an APS is somewhat novel in that this instrument is not normally used to solicit proposals across the broad range of technical sectors and organizational units that public-private alliances encompass.

² However, dedicated funding instruments for public-private alliances such as an APS or Request for Applications (RFA) are not ideally suited for public-private alliances either. One issue solicitors must take into account is that the obligating instruments associated with these solicitations are predicated upon the standard contractor and subcontractor relationship between implementers, while a public-private alliance calls for collaboration and action among partners on a more or less equal footing. “It’s a big challenge to get the buy-in for the shared objectives and to translate that into a common approach,” says Kristi Ragan of DAI. “You can’t just go in and say to the

DAI, as the solicitor, assembled partners with varying levels of prior collaboration and expertise in promoting labor standards. Particularly crucial was the multi-stakeholder approach championed by Social Accountability International, an organization with extensive experience in gathering unions, management, and corporate presence to address factory workplace issues in the textile industry.

After lengthy discussions with partners, USAID offices and experts in the region, the DAI group selected Guatemala as the most appropriate pilot country in Central America. Guatemala boasts the largest economy in Central America, but is also the poorest country in the region, ranking behind only Brazil and Pakistan in degree of income inequality among low and middle-income countries. 57 percent of Guatemala's population lives in poverty, of which 27 percent is considered extreme poverty.

Guatemala's maquila sector keeps many thousands more from unemployment and extreme poverty. Maquila factories are the sites of the least skilled and most labor-intensive stage of production on the global assembly line, and often the best choice among too few options for a developing country to expand its economy.

However, the maquilas, as a part of multinationals' supply chain, have also been at the center of the labor standards debate. The Commission for the Verification of Corporate Codes of Conduct (COVERCO), an independent external monitor of compliance with internationally accepted fair labor standards in Guatemala, had been working to identify the main obstacles to improved labor standards since its formation in 1997 by representatives of Guatemalan civil society. The issues documented ranged from excessive overtime and wage abuse to lack of maternity protections and the use of intimidation techniques to quell union organizing activities. Of more than 200 factories in Guatemala's maquila sector, only three are currently unionized.

Public sector efforts to reform labor standards in maquilas and other industries had realized only limited success. Susceptibility to bribery impeded reform, and donor attention was focused more on sector-wide efforts to encourage democracy and good governance. Limited resources for effective public sector enforcement and pressure to attract foreign investment were also key factors. While workplace monitoring from organizations such as COVERCO brought labor standards violations under increasing international scrutiny, enforcement of labor law at the national level remained inadequate.

By enlisting COVERCO as an alliance partner, the alliance gained the perspective of a third party locally based monitoring body that could work with U.S. retail firms such as Gap and Timberland on formulating the correct response to workplace monitoring findings. Local third party monitoring is an exercise to support regulation and enforcement of existing labor legislations in the public interest. Additionally, corporate response to workplace monitoring provides incentive for owners and managers to achieve compliance or risk losing business. By coupling a local third party monitoring organization (performing a function also performed by

subcontractor, 'sorry, no discussion, this is it'. Each partner brings a different perspective and motivation, and each partner is not necessarily bound by more traditional implementation relationships.

the public sector) with private sector buyers who exert market-based pressure to comply with codes of vendor conduct, the alliance is an example of public and private sector convergence of interests and action – an outcome the GDA development assistance model specifically seeks to engender.

Union participation in the alliance only strengthens the activity by bringing a crucial voice and perspective to the table. Worker training is legitimate only with organizations legitimately representing workers. SAI's longstanding relationship with a federation of textile organizations, the International Trade, Garment and Leather Workers Federation (ITGLWF), along with FESTRAS, the local federation of textile organizations, provides the needed credibility to address worker concerns. Both ITGLWF and FESTRAS play a central role in shaping the program and training curriculum from a worker's perspective.

Finally, cooperation and participation from final buyers – Gap and Timberland – delivers the final alliance component. Both firms enforce vendor codes of conduct through independent monitoring – which is considered an important complement to company auditing practices and one component of a successful multi-stakeholder approach to labor standards³.

“The Guatemala Labor Standards Alliance is about using the multi-stakeholder approach to add private sector mechanisms to help achieve compliance with national labor legislation,” says Alice Tepper Marlin, President of SAI. “But in raising labor standards through joint action, it is also a way of holding corporations accountable for responsible sourcing of their product.”

Workplace violations in vendor factories

While Gap and Timberland have taken concrete steps to responsibly source their product, public pressure to reform has played a catalyzing role. For example, in June 1995 a young Salvadoran woman publicly detailed the numerous abuses she and her coworkers had endured at vendor factories, including privacy violations by security guards, severely limited bathroom breaks, forced birth control, and mass firings and lock-outs in response to efforts to organize.

Her testimony and the testimonies of other Central American workers caused tremendous backlash against U.S. companies that sourced from such factories. Demonstrations, negative press coverage and consumer sentiment, and pressure from elected officials and shareholders changed the way apparel firms regarded their supply chain.

In December 1995, Gap formally agreed to independent monitoring of its supply chain factories, and recently revoked approval of 136 factories for failure to abide by the firm's code of vendor conduct.

ALLIANCE PARTNERS

³ While independent monitoring is considered a step beyond Gap's existing auditing measures to ensure vendor compliance, it represents a pilot approach largely limited to Central America. From a global standpoint among the more than 3000 factories that supply Gap with apparel, independent monitoring constitutes one approach among many – each adapted to specific local conditions – that will inform a next generation of industry-wide approaches to maintaining equitable labor standards.

Gap Inc., one of the world's largest specialty retailers with \$16 billion in revenue in 2003, supports multi-stakeholder efforts that work toward a convergence of codes among all apparel brands and retailers. To this end, Gap has implemented an internal monitoring program, and in 2003 the company joined SAI's Corporate Involvement Program (CIP) and the UN Global Compact. Their 2003 Social Responsibility Report is viewed as among the most transparent to date on labor standard violations in their global supply chain.

Timberland is a global leader in the design, engineering and marketing of premium-quality footwear, apparel and accessories, with products manufactured by vendors in 35 countries. The company pioneered the Global Business Alliances (GBA) program, which monitors global labor standards and audits the company's vendors, tanneries, suppliers and distributors. Timberland has been a member of SAI's Corporate Involvement Program since 2002.

Social Accountability International (SAI) is a non-profit organization dedicated to promoting corporate social responsibility and labor rights. One of its main activities is capacity building for improved workplace conditions through the development, implementation and oversight of voluntary verifiable social accountability standards.

The Commission for the Verification of Codes of Conduct (COVERCO) is a Guatemalan non-profit organization that performs independent monitoring and investigation of workplace compliance with labor standards for multinationals and international organizations.

The International Textile, Garment and Leather Workers' Federation (ITGLWF) brings together 217 affiliated organizations in 110 countries. The federation draws up policy guidelines on issues for unions and runs a program of education and development aid to assist unions to organize and educate workers.

Development Alternatives, Inc. (DAI) is an international consulting firm that helps businesses, governments and civil society solve economic development problems in emerging markets. DAI is the overall implementing partner in the alliance bringing its global expertise in competitiveness, human rights, gender, poverty alleviation and multistakeholder engagement.

Associated Groups:

VESTEX, Guatemala's preeminent apparel and textile exporters commission with membership including most major maquilas.

FESTRAS, a federation of agricultural and beverage unions, is a strong advocate for improved labor standards in Guatemala and provides advice on training and legal issues surrounding the establishment of unions and collective bargaining. FESTRAS is assisting in the development of the worker training aspects of the program.

ALLIANCE ACTIVITIES

The first curriculum development workshop was held in mid-April, marking the first time all primary stakeholders, including VESTEX and FESTRAS, were brought together. Because of the

different interests represented, partners were at first cautious as to how they might work in concert. But after initial uncertainty a productive session ensued, resulting in a fully developed curriculum and a training schedule that began in August.

While it was a challenge to translate diverse perspectives and interests into a common approach, consistent dialogue identified points of common ground and resulted in a common curriculum. Dialogue among equals and ongoing consensus building is necessary for the alliance to function.

The solutions based training consists of 13 modules comprehensively detailing national labor law. However, the demand-driven nature of the training (see below) typically covers 3-5 modules identified by the factory level needs assessment. Facilitators will explain national legislation pertaining to each aspect of labor standards, then break into working sessions where pragmatic approaches will be developed.

Each training session will have two aspects. The first component brings managers and workers together to anonymously identify workplace issues

unique to each group, or common to both groups. The second component features breakout sessions allowing each group to discuss the identified issues openly and frankly. Workplace issues identified anonymously are used illustratively, and best practices in workplace improvement may be used in subsequent trainings and also disseminated to external audiences.

Workers might talk about the difficulty of balancing family needs with workplace demands, or the workplace violations committed by managers. Managers might talk about the performance pressures they face that might cause workplace violations, or the difficulties and costs encountered when a factory attempts to achieve compliance – an aspect of labor standards often overlooked.

At the end of the working sessions, all participants will reconvene and share these solutions to determine which ideas are most feasible for integration into the factory system. Owners and managers are asked to make commitments addressing the issues identified by the training, and lay out timeframes to track how the desired improvements are achieved. Follow up action by the project will monitor compliance with a factory's stated commitments but also bring in needed technical assistance where the solutions have encountered additional obstacles in implementation.

Where workplace issues cannot reach resolution through discussion or are too intractable for a single training intervention to successfully resolve, parties can be referred to mediation centers established through a complementary USAID judicial-strengthening program.

Curriculum Training Modules

- MFA/CAFTA Context
- Link to Competitiveness and Productivity
- International and National Labor Laws
- Workplace Codes of Conduct
- Gender Issues
- Management Systems for Compliance
- Brand Expectations
- Factory Priorities
- Incentive Systems
- Conflict Resolution Mechanisms
- Workplace Diagnostic
- Factory Action Plans
- Follow-up Advisory Services

By focusing on compliance with national legislation, the training seeks to reinforce the responsibility of national labor bodies to enforce existing law. It also examines various codes of vendor conduct and the ways they can help manage compliance.

SUCSESSES AND CHALLENGES

The first curriculum development workshop was an unqualified success and will be followed by the first worker-manager trainings in August and September. Of the 12 factories targeted for first-round training, Gap will work with their vendors to provide access to six. VESTEX is working through its membership to identify another six factories.

Even as alliance activities move forward, however, partners must deal with issues both unique to labor standards and common in all partnerships. For example, securing local level buy-in can be difficult for an alliance seeking to scale-up results to the national level. Framing the issue in terms of labor standards can be a tough sell to factory owners and managers with short-term interest in competitiveness through low-cost labor rather than improved labor standards. Though alliance activities are aimed at facilitating economic growth, it is sector-wide, sustainable growth rather than an immediate revenue boost factory owners can measure.

The alliance must constantly work to reconfirm the commitment and alignment of the local and international partners and to continually finding a workable consensus owned by all partners. Putting unions together with industry associations together with monitoring groups and coming up with collaborative approaches that will deliver results in the workplace is not an easy task. However it is the only path that will lead to sustained improvements and the global competitiveness for this critical Central American industry that all the alliance partners seek.

USAID funding for the project ends in September 2005. A regional scale-up has been initially approved under the RFA GDA for 2004, with additional resource partners such as the International Development Bank (IDB) and major apparel brands expected to join the alliance. The initiative will carry the methodology of the successful Guatemalan pilot to El Salvador, Honduras, Nicaragua, Dominican Republic and Costa Rica. It will also continue to build momentum for labor standards development that is industry-wide.